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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Issue 6, Volume 9

April 22, 2014

Canada

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National Overview

Canadian Retail Gasoline Prices Increased 3 Cents per Litre from Last Week

Canadian retail pump prices increased by 3 cents per litre to a six-week high of $1.37 per litre for the week ending April 15, 2014, the highest level in the last two years.

Rising gasoline pump prices were influenced by a combination of factors, including: higher North American wholesale gasoline prices; seasonal factors at this time of the year such as refinery maintenance and the switch to summer-grade gasoline (which is more costly to produce than winter-grade gasoline); and higher refinery margins.

Diesel fuel and furnace oil prices declined by 1 cent per litre to $1.40 and $1.29 per litre, respectively, compared to the previous week. This represents an increase of 10 cents per litre, for both diesel fuel and furnace oil, from the same period last year.

Recent Developments

- **Propane Fuel Update**: The average Canadian supply of propane from processing plants increased by 5 thousand cubic metres to 881 thousand cubic metres in January 2014, compared to the previous month. However, the supply of propane is 20 thousand cubic metres (2%) lower than last year at the same period. Canadian average retail propane prices for automotive use, a potential proxy for heating propane use, declined by 1 cent per litre from the previous week to 83 cents per litre for the week ending April 15, 2014—a thirteen-week low. (Source: Natural Resources Canada, Fuel Focus and Statistics Canada, CANSIM table 131-0002)
- **Suncor Energy Announces Planned Maintenance at Edmonton Refinery**: Suncor Energy announced on April 7, 2014, that it has begun planned maintenance at the Edmonton refinery. The maintenance work is part of the refinery's ongoing maintenance program which is scheduled to last approximately eight weeks. (Source: Suncor Energy)
- **U.S. States and Cities Raising Gasoline Taxes to Pay for Infrastructure**: Crimped for funds, a slew of cities and states such as New York, Texas and Indiana are teaming up with private companies to build roads, bridges and other public projects, moving into zones once funded by gas-tax dollars or traditional state bonds. Wyoming nearly doubled its gas tax last year to 24 cents a gallon from 14 cents, marking the first increase since the late 1990s. The move is expected to raise more than $70 million, mostly for highway repairs and maintenance. These partnerships replicate a model long practiced in Europe, with private firms putting up initial funding in exchange for future guaranteed payments, through toll revenue or other sources. (Source: The Wall Street Journal)

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

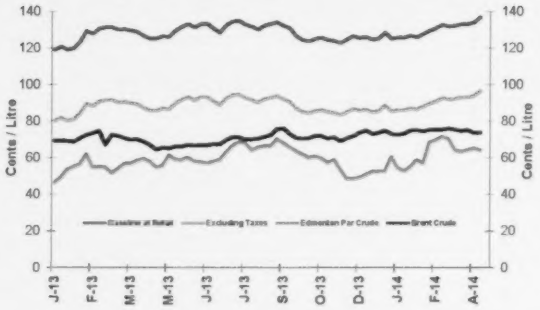
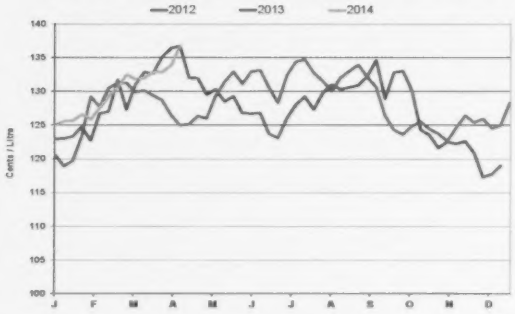


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2014-04-15	Previous Week	Last Year
Gasoline	136.8	+2.9	+13.8
Diesel	139.6	-1.0	+10.3
Furnace Oil	129.1	-0.8	+9.5

Source: NRCan

Natural Gas Prices for Vehicles

2014-04-15	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	114.6	75.6	78.4
Edmonton	115.1	75.9	78.7
Toronto	128.3	84.6	87.8

Source: ¢/kg Kent Marketing Services Limited

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Retail Gasoline Overview

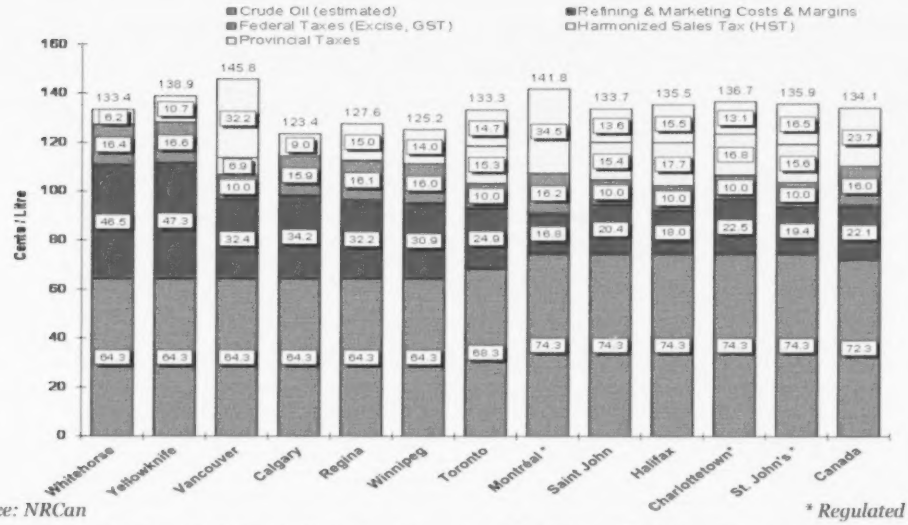
The average Canadian pump price in selected cities for the **four-week average** ending April 15, 2014, was $1.34 per litre—an increase of nearly 2 cents per litre from the last report on April 4, 2014. This represents a 7 cent-per-litre increase from the same period in 2013.

The **four-week average** crude oil price component of gasoline registered at 72 cents per litre, up by 3 cents per litre from two weeks ago. The crude oil price component of gasoline is almost 10 cents per litre higher from the same time last year.

Retail gasoline prices in most Western centres (Winnipeg to Vancouver), which ranged from $1.23 to $1.46 per litre, rose by 2 cents per litre when compared to the previous report. Prices in Eastern centres (Toronto to St. John's) increased on average by 0.3 cent per litre and ranged from $1.33 to $1.42 per litre.

Overall, the refining and marketing costs and margins component decreased by 1 cent per litre to 22 cents per litre compared to two weeks ago, and is nearly 4 cents per litre lower than at the same time last year.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (March 25 to April 15, 2014)



Source: NRCan

** Regulated Markets*

Note: Toronto crude oil cost includes pipeline tolls of $4 per barrel for light crude oil from Edmonton to Sarnia, Ontario.

EIA Gasoline and Diesel Price Outlook

According to its recent *Short-Term Energy and Summer Fuels Outlook*, the U.S. Energy Information Administration expects that regular-grade gasoline retail prices, which averaged $3.58/gallon last summer, will average $3.57/gallon during the current summer (April through September) driving season. The projected monthly average regular retail gasoline price falls from $3.66/gallon in May to $3.46/gallon in September. Diesel fuel prices, which averaged $3.89/gallon last summer, are projected to average $3.87/gallon this summer.

Daily and weekly national average prices can differ significantly from monthly and seasonal averages, and there are also significant differences across regions, with monthly average prices in some areas exceeding the national average price by 30 cents/gallon or more. Any unforeseen refinery outages or other disruptions to supply also have the potential to increase regional product prices beyond forecast levels in the short term.

During this summer driving season (April through September), projected motor gasoline consumption remains unchanged from last summer's average of 9.0 million bbl/d. Year-over-year increases in highway travel, projected to be 0.7%, are offset by an increase in fleet-wide fuel efficiency.

Source: U.S. Energy Information Administration http://www.eia.gov/forecasts/steo/pdf/steo_full.pdf;
1 US gallon = 3.785 litres.

Wholesale Gasoline Prices

Wholesale gasoline prices, compared to the previous week, increased in most centres for the **week ending April 10, 2014**.

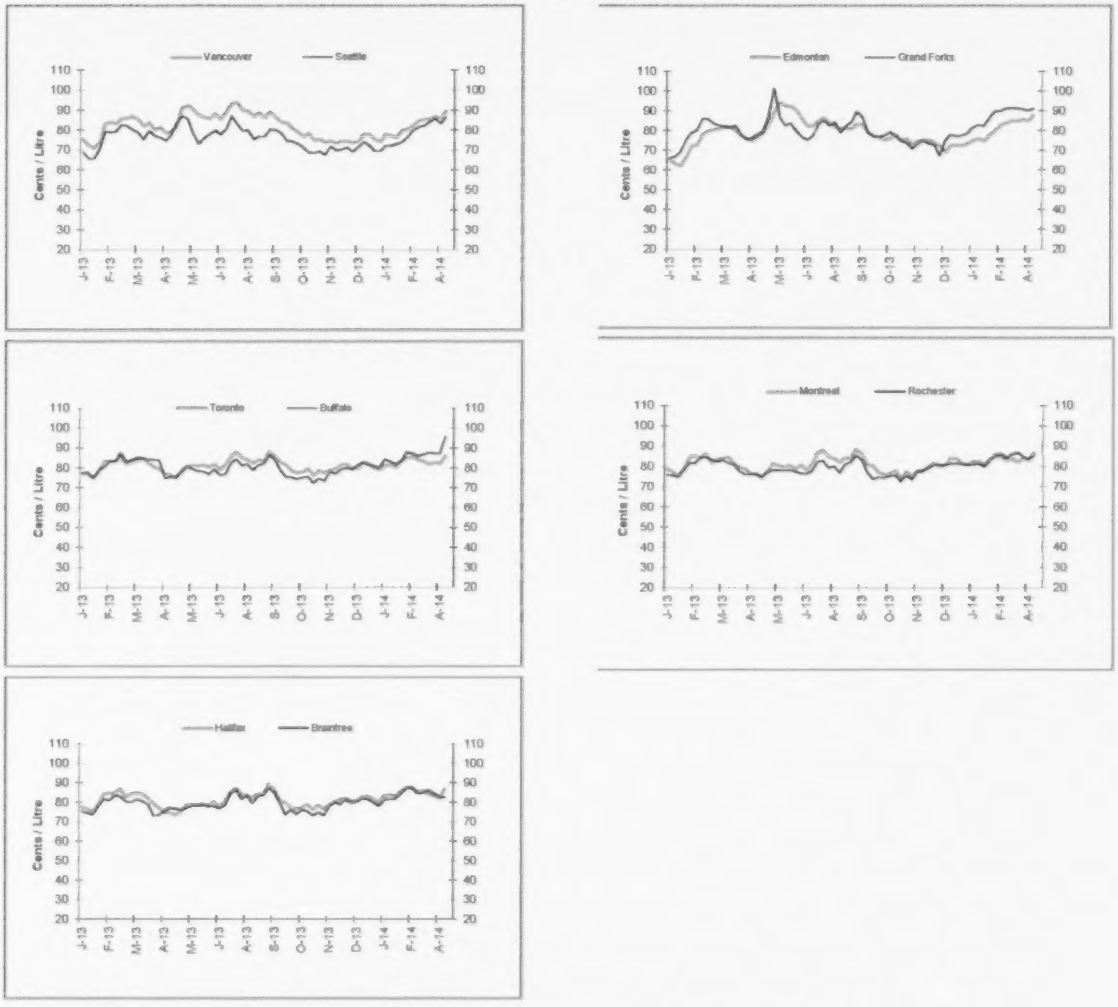
Wholesale gasoline price changes in the Eastern markets of both Canada and the United States ranged from a decrease of less than 1 cent per litre to an increase of nearly 9 cents per litre, compared to the previous week, with prices ending the period in the 83 to 96 cent-per-litre range.

In the Western centres, price changes ranged from an increase of 1 cent per litre to more than 3 cents per litre. Prices ended the period in the 87 to 91 cent-per-litre range.

In the last four weeks, wholesale price changes in selected Canadian and American centres ranged from a decrease of 2 cents per litre to an increase of 9 cents per litre.

Overall, wholesale gasoline prices in all markets are 6 to 15 cents per litre above last year's level.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending April 10, 2014
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Gasoline Refining and Marketing Margins

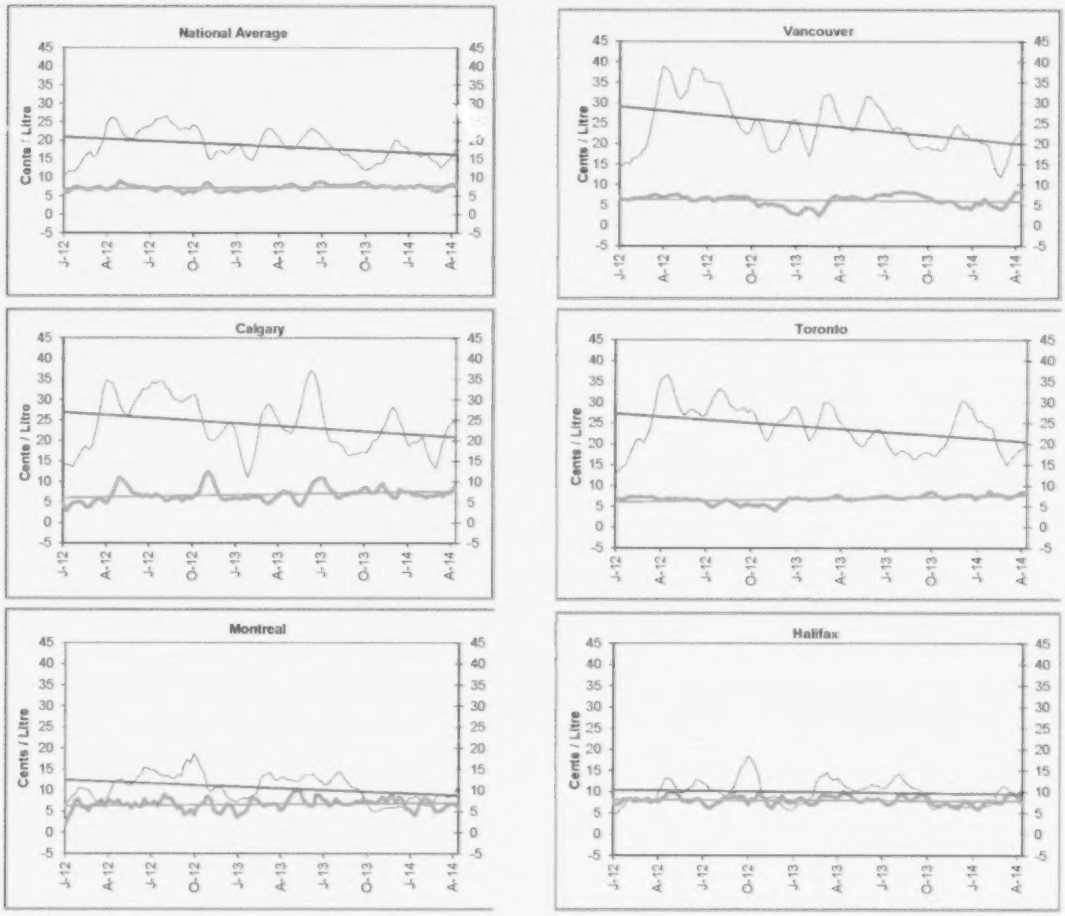
Four-week rolling averages are used for gasoline refining and marketing margins.

The March–April period can often present challenges for refiners. If the early spring is colder than expected, heating oil demand will remain strong at a time when refiners are trying to convert their operations away from distillate production toward more gasoline production.

Refiners need to build gasoline inventories through the spring in anticipation of the higher summer demand. This is also a time of the year when many refiners perform maintenance on equipment, which often requires short-term closures of specific units or even the whole refinery for a few days or a few weeks.

All of these conditions can limit the available supply of products and put upward pressure on prices, thereby increasing refining margins.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending April 15, 2014
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Market Crude Oil Prices Changes Mixed

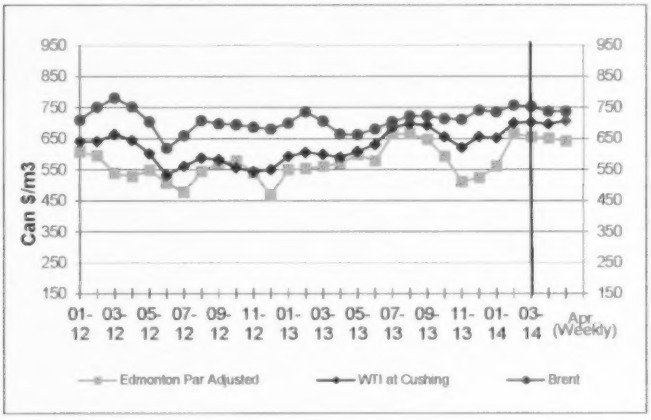
For the week ending April 11, 2014, crude oil prices averaged between $642/m³ and $738/m³ ($US93 to $US107 per barrel). WTI and Brent crude oil benchmarks increased in the range of $10/m³ and $1/m³ ($US2 to $US1 per barrel). For the week ending April 11, 2014, the crude oil price differential between Brent and WTI decreased to $31/m³ ($US4.50 per barrel).

Edmonton Par saw a decrease of $9/m³ ($US0.50 per barrel), compared to the previous week. Compared to the same period in 2013, all three benchmark prices have increased in the range of $63/m³ to 110/m³ ($US3 to $US9 per barrel).

Overall, crude oil prices changes were fairly muted given the political uncertainties of the Ukrainian situation and the potential additional Western economic sanctions and Libya's delay in oil exports.

U.S. crude oil inventories are reported to be at their highest five-year-average range. For the week ending April 11, 2014, the gain was four times what analysts had expected and was attributed to a surge in imports following the reopening of the Houston Ship Channel in late March.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2014-04-11		Change From:			
			Previous Week		Last Year	
	$Can/m³	$US/bbl	$Can/m³	$US/bbl	$Can/m³	$US/bbl
Edmonton Par	642.44	93.41	-8.80	-0.50	+63.33	+2.71
WTI	706.61	102.75	+9.74	+2.26	+110.28	+9.35
Brent	737.59	107.25	+1.08	+1.04	+67.86	+2.35

Source: NRCan

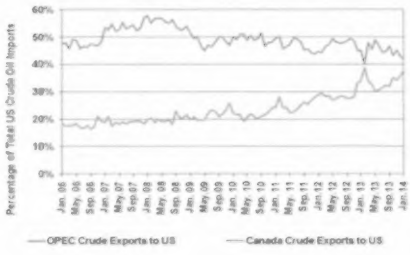
Canada Rivals OPEC for U.S. Crude Oil Import Market

Rising U.S. crude oil production and growing crude oil imports from Canada has significantly reduced U.S. dependence on Organization of Petroleum Export Countries (OPEC) crude oil imports.

OPEC's share of the total U.S. crude oil import market fell from 57.9% in January 2008 to 41.7% in January 2014.

Canada's share of the total U.S. crude oil import market doubled from 18.3% in January 2006 to 37.6% in January 2014.

OPEC versus Canada: Share of the Total U.S. Crude Import Market



Source: U.S. Energy Information Administration and NRCan